

## Telecommunications

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**T**he telecommunications industry is in upheaval today and consumers have a lot to lose if lawmakers give in to industry demands. In the wake of the WorldCom, Qwest and Global Crossing scandals, the industry is swimming in debt. While executives slash hundreds of thousands of jobs, consumer complaints skyrocket.

The telecom giants are blaming regulation for all of their problems and urging lawmakers to amend state and federal laws in their favor. Telephone giants want to raise prices for consumers, wipe out their competitors, and do away with what little regulatory oversight remains in the local phone market. If the industry prevails, consumers can look forward to both higher prices and fewer options.

### Prices

Telecom corporations, aided by deregulation, made bad investment decisions leading to an estimated \$1 trillion in losses. Some suggest that consumer prices should go up to restore the “financial health” of the ailing corporations. That is both unfair and unnecessary.

### In Short

Telecom corporations, aided by deregulation, made bad investment decisions leading to an estimated \$1 billion in losses. Now they want to increase consumer prices to restore their financial health even as consumer complaints about service continue to increase.

- Higher prices create a windfall for companies in no financial distress. Despite the downturn in the industry, companies like SBC, parent of Southwestern Bell Telephone, remain financially strong. SBC’s own reports estimate it will earn more than \$7 billion in profit this year.

### Service Quality

The number of complaints filed by consumers continues to climb at a rapid pace, while regulators fail to act. Current rules and enforcement actions have not proven to be a strong enough disincentive and consumers have little choice but to grin and bear it. The industry standard of service quality is in decline.

The announced layoffs in the telecom sector indicate service will get worse before it gets better, as companies try to shore up profits by cutting back on staff. We think that’s the wrong approach. Telephone service is a necessity for many people—the elderly, the home bound, parents of school children. We all pay for it and should be getting it.

### Competition

Competition in the local residential phone market is just starting to take root, and the telecom giants are already trying to kill it. Federal law required the local phone companies to open their networks to competitors, with state regulators to oversee the pricing and terms of access. Six years after deregulation, there are still few providers of competitive basic service to the typical household. Instead, they target high revenue users like business customers or select high-usage residential customers.

As the telecom giants begin to lose customers, they are seeking to

close off their networks to competitors. If they are successful, there will be no chance for competitive choice for the average residential customer.

### Access to High Speed Internet

Two competing technologies currently dominate the broadband market: cable and digital subscriber line (DSL) telephone. In Texas, about 75 percent of broadband subscribers use cable modems and about 24 percent use DSL, while the remaining one percent use satellite.

Local telephone companies are required to provide open access to their broadband Internet access facilities (these facilities being entirely separate or separable from Internet services). Cable television companies are not required to do so.

In other states, local telephone companies have attempted to “lower the bar” on open access by lobbying for restricted access to their Internet access facilities in the name of regulatory parity. Consumers Union believes this downward spiral on open access would be harmful to broadband competition and consumers.

### RECOMMENDATIONS

- Local service price cap: Currently, the price for local phone service offered by the incumbent providers is “capped” to protect consumers, and this cap should not be changed.
- Step up enforcement of service standards while increasing the maximum fines set by statute.
- Retain open access to internet infrastructure—the only pro-competition policy that will protect the current success and the future promise of the Internet.